



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
RUSSELL COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 1998**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Russell County, Kentucky, as of June 30, 1998, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Tourist Commission. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Tourist Commission, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky. Consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, based upon our audit and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of Russell County, Kentucky, and the related statement of cash receipts, cash disbursements, and changes in cash balances as of June 30, 1998, in conformity with the cash basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court

Our audit was performed for the purpose of forming an opinion on the financial statements of Russell County, Kentucky, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The other information provided on the accompanying schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present a schedule of Findings and Questioned Costs, included herein, which discusses the following areas of noncompliance:

- The County Should Have Required The Depository Institution To Pledge Additional Securities Of \$492,966 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Jailer Should Have Maintained Proper Receipt And Disbursement Ledgers

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 1999, on our consideration of Russell County, Kentucky's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 13, 1999

## RUSSELL COUNTY OFFICIALS

Fiscal Year Ended June 30, 1998

[illegible]

STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

RUSSELL COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 1998

<u>Assets and Other Resources</u>									
<u>Assets</u>									
General Fund:									
	Cash							\$	284,418
Road and Bridge Fund:									
	Cash								129,318
Jail Fund:									
	Cash								49,630
Jail Commissary Fund:									
	Cash								162
Local Government Economic Assistance Fund:									
	Cash								30,074
Tourism Fund:									
	Cash								15,196
Airport Board Fund:									
	Cash								83,036
Escrow Account - Gas Franchise:									
	Cash								35
Public Properties Corporation Fund:									
	Bond Sinking Account -								
	Cash								79,257
Payroll Revolving Account:									
	Cash								5,324
<u>Other Resources</u>									
Road Fund:									
	Amount to be Provided in Future Years for Capital Lease Principal Obligations								
	(Note 5)								400,000
Public Properties Corporation Fund:									
	Amounts to be Provided in Future Years for Bond Principal Payments (Note 5)								270,743
Total Assets and Other Resources								\$	<u>1,347,193</u>

The accompanying notes are an integral part of the financial statements.

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The accompanying notes are an integral part of the financial statements.



STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

						Totals		Road and				
						(Memorandum	General	Bridge				
Cash Receipts						Only)	Fund	Fund	Jail Fund			
Schedule of Operating Revenue					\$	3,641,578	\$	1,016,408	\$	961,816	\$	67,977
Transfers In						524,304				100,000		355,072
Jail Commissary Fund Receipts						16,432						
Total Cash Receipts					\$	4,182,314	\$	1,016,408	\$	1,061,816	\$	423,049
Cash Disbursements												
Comparative Schedule of Final Budget												
and Budgeted Expenditures					\$	3,297,720	\$	606,671	\$	1,015,102	\$	377,163
Airport Board Fund Expenditures						233,461						
Transfers Out						524,304		448,469		65,232		
Bonds:												
Principal Paid						40,000						
Interest Paid						24,732						
Fees						500						
Jail Commissary Fund Expenditures						16,865						
Total Cash Disbursements					\$	4,137,582	\$	1,055,140	\$	1,080,334	\$	377,163
Excess (Deficiency) of Cash Receipts												
Over (Under) Cash Disbursements					\$	44,732	\$	(38,732)	\$	(18,518)	\$	45,886
Cash Balance - July 1, 1997						626,394		323,150		147,836		3,744
Cash Balance - June 30, 1998					\$	671,126	\$	284,418	\$	129,318	\$	49,630

The accompanying notes are an integral part of the financial statements.

The accompanying notes are an integral part of the financial statements.

							Community Development Block Grant
<u>Cash Receipts</u>							
Schedule of Operating Revenue Transfers In						\$	1,200,000
Jail Commissary Fund Receipts							
Total Cash Receipts						\$	1,200,000
<u>Cash Disbursements</u>							
Comparative Schedule of Final Budget and Budgeted Expenditures						\$	1,200,000
Airport Board Fund Expenditures Transfers Out							
Bonds:							
Principal Paid							
Interest Paid							
Fees							
Jail Commissary Fund Expenditures							
Total Cash Disbursements						\$	1,200,000
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements						\$	0
Cash Balance - July 1, 1997							
Cash Balance - June 30, 1998						\$	0

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Jail Commissary Fund, the Tourist Commission, the Airport Board Fund, and the Public Properties Corporation Fund as part of the reporting entity. The Tourist Commission was audited by another auditor whose report is included in Appendix B.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.

C. Basis of Accounting

The financial statements were prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

D. Legal Compliance - Budget

The Russell County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998 (Continued)

Note 1. (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of June 30, 1998, the bank balances were fully insured or collateralized with securities held by the county's agent in the county's name. However, as of April 15, 1998, the uncollateralized amount on deposit was \$492,966. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the county did not have a written agreement with the depository institution.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998 (Continued)

Note 3. Deposits (Continued)

Deposits are categorized below to indicate the amount of risk as of April 15, 1998.

						Bank Balance
Collateralized with securities held by the county's agent in the						\$ 0
county's name						
Collateralized with securities held by pledging depository institution in the						
county's name						500,000
Uncollateralized						492,966
Total						\$ 992,966

Note 4. Short-Term Debt

		Date of	Maturity	Interest	
Description		Note	Date	Rate	Amount
Bank of Jamestown		4/28/98	10/28/98	8%	\$ 49,911

The Russell County Airport Board borrowed funds from the Bank of Jamestown for the purpose of airport development. The is a short-term note, which is being renewed every six months.

Note 5. Long-Term Debt

A. Bonds Outstanding Of The Public Properties Corporation Fund Are:		
	Scheduled	Scheduled
Due Date	Interest	Principal
1999	\$ 22,433	\$ 40,000
2000	19,993	45,000
2001	17,180	45,000
2002	14,300	50,000
2003	11,050	55,000
2004	7,475	115,000
Totals	\$ 92,431	\$ 350,000

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998 (Continued)

Note 5. Long-Term Debt (Continued)

B. Capital Lease Obligation		
Road Fund Capital Lease Obligation:		
	Scheduled	Scheduled
Due Date	Interest	Principal
1999	17,381	\$ 33,000
2000	15,878	34,000
2001	14,310	36,000
2002	12,671	37,000
2003	10,969	39,000
Thereafter	26,501	221,000
Totals	\$ 97,710	\$ 400,000

Note 6. Russell County Industrial Development Authority Lease-Purchase Agreements

A. Superior Battery

During fiscal year ended June 30, 1998, Russell County received \$680,000 of Community Development Block Grant #B-96-DC-21-0001(001) which were passed through to the Russell County Industrial Development Authority for the purpose of purchasing industrial equipment for lease to Superior Battery Manufacturing Company, Inc. Pursuant to a lease-purchase agreement date September 18, 1997, between Russell County Industrial Development Authority (subrecipient of the County's federal funds), and Superior Battery Manufacturing Company, Inc. is to repay the \$680,000 through monthly rental payments to the Russell County Development Authority over a period of 7 years with a 5 percent interest rate. As of June 30, 1998, Superior Battery Manufacturing Company, Inc. was in substantial compliance with the agreement. Outstanding principal balance as of June 30, 1998 was \$617,974.

B. Lily Creek

During fiscal year ended June 30, 1998, Russell County received \$500,000 of Community Development Block Grant #B-97-DC-21-0001(002) which were passed through to the Russell County Industrial Development Authority for the purpose of purchasing industrial equipment for lease to Lily Creek Industries, Inc. Pursuant to a lease-purchase agreement dated November 21, 1997, between Russell County Industrial Development Authority (subrecipient of the County's federal funds), and Lily Creek Industries, Inc. is to repay the \$500,000 through monthly rental payments to the Russell County Development Authority over a period of 7 years with a 5 percent interest rate. As of June 30, 1998, Lily Creek Industries, Inc. was in compliance with the agreement. Outstanding principal balance as of June 30, 1998 was \$495,017.



RUSSELL COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 1998 (Continued)

Note 6. Russell County Industrial Development Authority Lease-Purchase Agreements (Continued)

B. Lily Creek (Continued)

As required by the grant agreements, all principal and interest payments received by the Authority from Superior Battery Manufacturing Company, Inc. and Lily Creek shall be used by the Authority for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 7. Russell County Fiscal Court Lease-Purchase Agreements

The fiscal court has entered into the following lease-purchase agreements:

		Purchase	Maturity	Interest	
Description		Date	Date	Rate	Amount
Ambulance		4/25/96	6/20/99	4%	\$ 18,523
Ambulance		10/13/97	1/20/01	4%	\$ 49,898

Note 8. Insurance

For the fiscal year ended 1998, Russell County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



SCHEDULE OF OPERATING REVENUE

					Totals		Road and	
					(Memorandum	General	Bridge	
					Only)	Fund	Fund	Jail Fund
<u>Revenue From Local Taxes</u>								
<u>and Excess Fees</u>								
Sheriff:								
	Taxes				\$ 275,898	\$ 275,898	\$	\$
	Excess Fees - 1998				148	148		
	Fire Protection				2,405	2,405		
County Clerk:								
	Deed Transfer Tax				25,570	25,570		
	Delinquent Taxes				5,143	5,143		
	Excess Fees - 1997				100,000	100,000		
Bank Franchise Taxes					29,886	29,886		
Omitted Tangible Taxes					996	996		
Tangible Personal Property Taxes:								
	Other Counties				9,502	9,502		
	County Clerk				67,452	67,452		
Occupational Employment Tax					238,239	238,239		
Net Profits Tax					18,731	18,731		
In Lieu of Taxes:								
	Tennessee Valley Authority				14,383	14,383		
	Other				25,235	25,235		
Tourism Tax					98,650			
Totals					\$ 912,238	\$ 813,588	\$ 0	\$ 0
<u>Federal Receipts - State Treasurer</u>								
Disaster and Emergency Assistance								
	Grants - Coordinator Salary				\$ 857	\$ 857	\$	\$
Community Development Block								
	Grants:				500,000			
	Lily Creek Industries							
	Superior Battery Expansion							
	Project				700,000			
Federal Disaster and Emergency								
	Services:							
	Reimbursements				39,651		39,651	

				Public	
Local				Properties	Community
Government			Escrow	Corporation	Development
Economic		Airport	Account-	Fund-Bond	Block
Assistance	Tourism	Board	Gas	Sinking	Grant
Fund	Fund	Fund	Franchise	Account	Fund
\$	\$	\$	\$	\$	\$
	98,650				
\$ 0	\$ 98,650	\$ 0	\$ 0	\$ 0	\$ 0
\$	\$	\$	\$	\$	\$
					500,000
					700,000

				Totals	General	Road and	
				(Memorandum	Fund	Bridge	
				Only)	Fund	Fund	Jail Fund
<u>Federal Receipts - State Treasurer</u>							
<u>(Continued)</u>							
Flood Control				\$ 68,789	\$ 13,758	\$ 55,031	\$
Narcotic Control Assistance				6,604	6,604		
Juvenile Justice				18,549	18,549		
Totals				\$ 1,334,450	\$ 39,768	\$ 94,682	\$ 0
<u>Kentucky State Treasurer</u>							
Jail:							
Allotments				\$ 38,051	\$	\$	\$ 38,051
Medical Allotments				3,326			3,326
Driving Under The Influence Fees				5,146			5,146
County Road Aid				647,484		647,484	
Municipal Road Aid				25,000		25,000	
Truck License Distribution				151,651		151,651	
Courthouse Rental - Administrative							
Office of the Courts				61,311	61,311		
Refunds:							
Legal Process Tax				129	129		
Driver Licenses				1,522		1,522	
Dog Licenses				215	215		
Severance Taxes:							
Coal				12,198			
Mineral				8,515			
Board of Assessments				200	200		
Grants:							
Disaster and Emergency							
Assistance Grant -							
Coordinator Salary				383	383		
Airport Development				144,599			
Miscellaneous				872		872	
Totals				\$ 1,100,602	\$ 62,238	\$ 826,529	\$ 46,523

[illegible]



										Totals		Road and	
										(Memorandum	General	Bridge	
										Only)	Fund	Fund	Jail Fund
<u>Miscellaneous Revenue</u>													
Interest										\$ 25,295	\$ 8,934	\$ 7,140	\$ 1,107
Circuit Court Clerk:													
Bond Fees										505			505
Jail Costs										9,177			9,177
Work Release										5,370			5,370
Housing Prisoners-													
Other Counties										520	520		
Rentals										1,275	1,275		
Off Track Betting Proceeds										21,786	21,786		
Licenses and Permits:													
Cable TV Franchise										27,158	27,158		
Reimbursements:													
Sheriff-Gas										6,557	6,557		
Ambulance Board										25,836	25,836		
Insurance Proceeds										31,651		31,651	
Miscellaneous										5,861	5,861		
Telephone Commission										1,332			1,332
Prisoner Benefits										3,234			3,234
Sale of Land										123,289			
Miscellaneous Items										5,442	2,887	1,814	729
Totals										\$ 294,288	\$ 100,814	\$ 40,605	\$ 21,454
Total Operating Revenue										\$ 3,641,578	\$ 1,016,408	\$ 961,816	\$ 67,977

RUSSELL COUNTY  
SCHEDULE OF OPERATING REVENUE  
Fiscal Year Ended June 30, 1998  
(Continued)

				Public	
Local				Properties	Community
Government			Escrow	Corporation	Development
Economic		Airport	Account-	Fund-Bond	Block
Assistance	Tourism	Board	Gas	Sinking	Grant
Fund	Fund	Fund	Franchise	Account	Fund
\$ 504	\$ 160	\$ 3,637	\$ 251	\$ 3,562	\$
		123,289			
		12			
\$ 504	\$ 160	\$ 126,938	\$ 251	\$ 3,562	\$ 0
\$ 21,217	\$ 98,810	\$ 271,537	\$ 251	\$ 3,562	\$ 1,200,000

COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

RUSSELL COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 1998

		Final	Budgeted	Under
		Budget	Expenditures	(Over)
				Budget
<u>GENERAL FUND</u>				
<u>General Government</u>				
Office of County Judge/Executive:				
Salaries-				
County Judge/Executive		\$ 48,289	\$ 48,268	\$ 21
Administrative Assistant		10,000	9,584	416
Finance Officer		9,440	9,384	56
Bond		356		356
Office Materials and Supplies		2,000	1,190	810
New Office Equipment		2,000	919	1,081
Telephone		3,700	3,584	116
Travel		550	521	29
Membership		960	960	
Conference Fees		145	145	
Postage		1,500	1,500	
Office of County Attorney:				
Salaries-				
County Attorney		10,001	10,001	
Secretaries		16,368	16,358	10
Office Materials and Supplies		2,500	1,420	1,080
Telephone		3,000	2,947	53
Office of County Clerk:				
Bond		600	590	10
Telephone		3,900	3,383	517
Tax Bill Preparation		7,384	7,340	44
Office of Sheriff:				
Accounting Services		1,350	1,350	
Bonds		2,000	1,366	634
Court Costs		3,200	1,916	1,284
Postage		3,520	3,520	
Telephone		3,000	2,687	313
Office of County Coroner:				
Salaries-				
County Coroner		4,800	4,800	

<u>GENERAL FUND (Continued)</u>											
<u>General Government (Continued)</u>											
Office of County Coroner:											
Salaries (Continued)-											
Deputy Coroner							\$	1,800	\$	1,800	\$
Autopsies and Attendant Service								2,070		1,115	955
Office Supplies								1,230		1,230	
Bonds								250		153	97
Fiscal Court:											
Magistrates or Commissioners-											
Salaries								14,400		14,400	
Expense Allowance								14,400		14,400	
Travel								600		572	28
Office of Property Valuation Administrator:											
Telephone								2,500		2,127	373
Statutory Contribution								17,069		17,069	
Office of Board of Assessment Appeals:											
Per Diem								800		400	400
Office of County Treasurer:											
Salaries-											
County Treasurer								6,000		6,000	
Bond								600		549	51
Tax Administrator								8,000		7,670	330
County Law Library:											
Law Librarian Salary								600		600	
Office of Circuit Court Clerk:											
Elections:											
Per Diem-											
Election Commissioners								1,560		1,560	
Election Officers								20,000		5,297	14,703
Polling Places								2,500		1,250	1,250
Supplies and Materials								1,000			1,000

<u>GENERAL FUND (Continued)</u>														
<u>General Government (Continued)</u>														
Office of Circuit Court Clerk (Continued):														
Elections (Continued):														
		Utilities							\$	3,000	\$	153	\$	2,847
		Voting Machines								19,000		2,650		16,350
Economic Development:														
		Advertising								8,000		7,017		983
Courthouse:														
		Janitor Salary								21,300		21,300		
		Utilities								15,000		14,015		985
		Elevator Maintenance								5,012		5,012		
		Solid Waste								6,188		860		5,328
		Cleaning Supplies								7,500		3,040		4,460
		Maintenance and Repair Services								7,000		5,776		1,224
		Maintenance Equipment								71,930		14,583		57,347
		Miscellaneous								1,000		48		952
<u>Protection to Persons and Property</u>														
Constables:														
		Bond								203		203		
County Fire Department:														
		Program Support								11,000		11,000		
Disaster and Emergency Services:														
		Director Salary								2,346		2,346		
		Dispatch Service								30,000		27,300		2,700
		Rescue Squad Contribution								1,500		1,500		
		Travel								50				50
		Miscellaneous								500		231		269
Ambulance Service:														
		Motor Vehicles								50,626		50,626		

<u>GENERAL FUND (Continued)</u>							
<u>Protection to Persons and Property</u>							
<u>(Continued)</u>							
Forestry Fire Protection:							
Miscellaneous				\$ 3,100	\$ 1,378	\$ 1,722	
Office of Public Defender:							
Contribution				2,700	2,426	274	
Court Appointed Attorneys				3,050	2,690	360	
<u>General Health and Sanitation</u>							
Dog Control:							
Salaries				3,000	2,850	150	
Miscellaneous				1,000	974	26	
Solid Waste Collection:							
Salary:							
Solid Waste Coordinator				7,487	7,487		
Program Support				43,000	6,469	36,531	
<u>Recreation and Culture</u>							
Public Libraries:							
Salaries Reimbursement							
Library Personnel				13,230	12,382	848	
<u>Social Services</u>							
Juvenile Services:							
Per Diem				1,050	955	95	
Contracts with Private Agencies				34,767	32,098	2,669	
Travel				200	78	122	
Supplies and Materials				700	579	121	
Other Equipment				500	48	452	
Part-time				800	540	260	
Miscellaneous				500		500	

<u>GENERAL FUND (Continued)</u>																		
<u>Administration</u>																		
General Services:																		
Advertising										\$	3,000	\$	2,163	\$	837			
Audit Services											13,877		13,877					
Building and Equipment Insurance											12,000		12,000					
Liability Insurance											18,317		18,317					
Memberships-																		
LCADD											1,000		857		143			
KACO											900		900					
Bank Charges											500				500			
Miscellaneous											16,509		16,360		149			
Contingent Appropriations:																		
Reserve for Transfers											68,702				68,702			
Fringe Benefits:																		
County Contributions-																		
Social Security											32,919		32,919					
Retirement											35,361		35,361					
Health Insurance											20,000		17,860		2,140			
Worker's Compensation											13,783		7,518		6,265			
Unemployment Insurance											7,000				7,000			
Total Operating Budget											\$	856,049		\$	606,671		\$	249,378
<u>Other Financing Uses:</u>																		
Transfers To																		
Airport Board Fund											4,000		4,000					
Total General Fund											\$	860,049		\$	610,671		\$	249,378
<u>ROAD AND BRIDGE FUND</u>																		
<u>Roads</u>																		
Office of Road Supervisor/Engineer:																		
Road Supervisor Salary											\$	17,892		\$	17,892		\$	



ROAD AND BRIDGE FUND (Continued)															
Roads (Continued)															
Road Maintenance:															
Salaries:															
Equipment Operators										\$	101,055	\$	101,055	\$	
Contracts with Vehicle Owners											61,266		61,266		
Asphalt											465,791		465,791		
Crushed Stone and Gravel											194,853		194,853		
Machinery and Equipment											50,000		46,014		3,986
Repairs											15,708		15,708		
Vehicle Parts											14,080		14,080		
Materials											7,755		6,544		1,211
Petroleum											25,527		25,527		
Pipe											11,354		11,354		
Medical Services/Drug Screening											748		748		
Telephone											475		453		22
Utilities											1,100		1,018		82
Training											55		55		
Solid Waste											740		720		20
Miscellaneous											5,342		2,876		2,466
Administration															
General Services:															
Building and Equipment Insurance											5,000		5,000		
Liability Insurance											5,000		5,000		
Contingent Appropriations:															
Reserve for Budget Transfers											(8,919)				(8,919)
Fringe Benefits:															
County Contributions-															
Retirement											10,500		10,177		323
Social Security											10,000		8,744		1,256
Health Insurance											16,468		16,468		
Worker's Compensation											3,759		3,759		
Total Operating Budget										\$	1,015,549	\$	1,015,102	\$	447

<u>ROAD AND BRIDGE FUND (Continued)</u>													
<u>Other Financing Uses:</u>													
Transfers to Public Properties													
Corporation Fund										\$ 65,232	\$ 65,232	\$	
Total Road and Bridge Fund										\$ 1,080,781	\$ 1,080,334	\$	447
<u>JAIL FUND</u>													
<u>Protection to Persons and Property</u>													
Office of Jailer:													
Personnel Services-													
Salaries-													
Jailer										\$ 47,899	\$ 47,899	\$	
Deputy Jailer										84,000	80,337		3,663
Food Service Personnel										16,330	15,912		418
Operations-													
Cleaning Supplies										2,920	2,618		302
Food										39,743	38,596		1,147
Bonds										100			100
Insurance-Building and Contents										2,500	2,500		
Office Supplies										350	159		191
Memberships										250	250		
Routine Medical										64,555	53,480		11,075
Utilities										12,000	11,789		211
Staff Training										130	130		
Staff Travel										230	152		78
Telephone										3,000	2,886		114
Contract with Other Counties										63,053	63,053		
Juvenile:													
Contracts with Other Counties										15,075	10,610		4,465
Miscellaneous										3,066	3,066		
Miscellaneous Operating Expense										16	16		
Maintenance-													
Building Repairs										100	97		3
Equipment Repairs										1,300	1,300		

RUSSELL COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES  
Fiscal Year Ended June 30, 1998 (Continued)

		Final	Budgeted	Under
		Budget	Expenditures	(Over)
				Budget
<u>JAIL FUND (Continued)</u>				
<u>Protection to Persons and Property</u>				
(Continued)				
Solid Waste		\$ 720	\$ 720	\$
Machinery and Equipment		500	473	27
Petroleum Products		1,750	1,497	253
Contingent Appropriations:				
Reserve for Budget Transfers		10,063		10,063
<u>Administration</u>				
Fringe Benefits:				
County Contributions-				
Retirement		11,623	11,623	
Social Security		11,000	10,387	613
Health Insurance		13,853	13,853	
Worker's Compensation		3,760	3,760	
Total Jail Fund		\$ 409,886	\$ 377,163	\$ 32,723
<u>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</u>				
Other County Liabilities:				
Lease-Purchase Agreements		\$ 25,248	\$ 5,743	\$ 19,505
Total Operating Budget		\$ 25,248	\$ 5,743	\$ 19,505
Other Financing Uses:				
Airport Board Fund				
Principal		2,858		2,858
Total Local Government Economic				
Assistance Fund		\$ 28,106	\$ 5,743	\$ 22,363

[illegible]

SCHEDULE OF UNBUDGETED EXPENDITURES

RUSSELL COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 1998

[illegible]

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

RUSSELL COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 1998

Program Title	Pass-Through	
Grant Name (CFDA #)	Grantor's Number	Expenditures
<u>Cash Programs</u>		
U.S. Department of Housing and Urban Development		
Passed-Through State Department of Local Government:		
Community Development Block Grants-		
Superior Battery Expansion (CFDA # 14.228)	B-96-DC-21-0001(001)	\$ 700,000
Lily Creek Industries, Inc. Project (CFDA # 14.228)	B-97-DC-21-0001(002)	500,000
Total U.S. Department of Housing and Urban Development		\$ 1,200,000
<u>U.S. Department of Justice</u>		
Direct Program:		
Non-Participating State Program- Kentucky (CFDA #16.541 )	95-JS-CX-0050	\$ 18,549
Passed-Through State Justice Cabinet: Narcotic Control Assistance (CFDA #16.579 )	5537-N20-1196	11,079
Total U.S. Department of Justice		\$ 29,628
<u>U.S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.503)	Not Available	\$ 857
Snow Removal (CFDA #83.516)	FEMA-1207-DR-KY ID#207-00000	39,651
Total U.S. Federal Emergency Management Agency		\$ 40,508
Total Cash Expenditures of Federal Awards		\$ 1,270,136

The notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.



**RUSSELL COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 1998

**Note 1 - Basis of Presentation**

This schedule is presented on a cash basis.

**Note 2 -** As required by this grant agreement, all principal and interest received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

**Note 3 -** The federal expenditures for Community Development Block Grant-Superior Battery Expansion Project and Community Development Block Grant-Lily Creek Industries, Inc. Project include grants to subrecipients as follows:

					Grant		Pass-Through
<u>Subrecipient</u>					<u>Number</u>		<u>Grant Amount</u>
Russell County Industrial							
	Development Authority				B-96-DC-21-0001 (001)		\$ 680,000
Russell County Industrial							
	Development Authority				B-97-DC-21-0001 (002)		\$ 500,000

**Note 4-** During fiscal year June 30, 1998, the county disbursed \$1,180,000 of Community Development Block Grant funds to the Russell County Industrial Development Authority, a subrecipient of the county's federal financial assistance. These funds were monitored by the county, however, an audit has not been performed on the Russell County Industrial Development Authority. As a part of the county's subrecipient monitoring activities, the county should ensure that the Russell County Industrial Development Authority meets the audit requirements of OMB Circular A-133. This audit is not required to be submitted until July 31, 1999.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



## Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court

### Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Russell County, Kentucky, as of and for the year ended June 30, 1998, and have issued our report thereon dated May 13, 1999. We did not audit the financial statements of the Tourist Commission. Those financial statements were audited by other auditors whose report is included in Appendix B. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Russell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court  
Report On Compliance And On Internal Control Over Financial Reporting  
Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing  
Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 13, 1999

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



## Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court

### Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

#### Compliance

We have audited the compliance of Russell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1998. Russell County's major federal programs are identified in the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Russell County's management. Our responsibility is to express an opinion on Russell County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Russell County's compliance with those requirements.

In our opinion, Russell County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

#### Internal Control Over Compliance

The management of Russell County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Russell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Honorable Charles M. Smith, County Judge/Executive  
Members of the Russell County Fiscal Court  
Report On Compliance With Requirements Applicable To Each Major Program  
And Internal Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed –  
May 13, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



RUSSELL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 1998

A. SUMMARY OF AUDIT RESULT

1. The auditor's report expresses an unqualified opinion on the financial statements of Russell County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Russell County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Russell County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Russell County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant (CFDA#14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Russell County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None

NONCOMPLIANCES

The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$492,966 As Collateral And Entered Into A Written Agreement To Protect Deposits

The county's deposits were not adequately secured by \$492,966 as of April 15, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The county should require the depository institution to pledge sufficient securities as collateral to insure deposits at all times. We also recommend the county enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*This was completed as of May 13, 1999. Bank has assured that this was taken care of.*

RUSSELL COUNTY  
FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 1998  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

The Jailer Should Have Maintained Proper Receipt and Disbursement Ledgers

While the Jailer did maintain records of his receipts and disbursements such as receipt tickets, deposit slips, invoices, and cancelled checks, the Jailer did not maintain a receipt ledger or disbursement ledger for the Jail Commissary Fund. KRS 441.135(2) requires the Jailer to "... keep books of accounts of all receipts and disbursements..." for the Jail Commissary Fund. We recommend the Jailer start keeping receipt and disbursement ledgers for the Jail Commissary Fund.

*Management's Response:*

*The Jailer was not aware of these requirements.*

PRIOR YEAR FINDINGS

In the prior year audit report, it was reported that the County did not have a written collateral security agreement to protect deposits. This finding was partially corrected but is commented on in the current year audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None

**CERTIFICATION OF COMPLIANCE – LOCAL  
GOVERNMENT ECONOMIC DEVELOPMENT PROGRAM**

RUSSELL COUNTY TOURIST COMMISSION

A COPY OF THIS APPENDIX  
MAY BE OBTAINED THROUGH AN OPEN RECORDS REQUEST  
AUDITOR OF PUBLIC ACCOUNTS  
144 Capitol Annex  
Frankfort, Kentucky 40601-3448  
502-564-5841